



Role of the Government

In most modern societies, the government is responsible for a number of crucial functions. These also include the more traditional functions like defending the country and maintaining internal law and order.

In addition, the government has to take the responsibility of setting up and running schools, colleges, libraries, health centers, hospitals, post offices and a variety of other public institutions. The public transport system and the infrastructure of roads and railways are constructed and maintained by the government. In providing water, sanitation, electricity facilities, the government has to play an active role. Facilities like healthcare and sanitation, electricity, public transport, schools and colleges are known as public facilities.

The important characteristic of a public facility is that once it is provided, its benefits can be shared by many people. You have read about this in Class VIII. For instance, a government school in a village will enable many children to get education. Similarly, the supply of electricity to an area can be useful for many people: farmers can run pump sets to irrigate their fields, factories, offices, shops and markets require a reliable source of power to run, students will find it easier to study and most of the people, whether in a village or a town, will benefit in some way or the other. These public facilities have to be available to all and at an affordable rate. Governments have the responsibility for this. It may take up the work on its own or get it organised.

Besides the provision of public facilities, the government has the responsibility towards protection of livelihoods. You have read about the Right to Work and the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in rural areas. The Act mandates that it is the responsibility of the government to provide manual work on demand and the wages to the workers and the capital needed are to be paid by the government. The distribution of food grains at fair prices in the PDS shops is organised and the subsidy borne by the government. As we have seen, these are critical for the food security of the poor.

In the past, the Indian government has also played a major role in setting up heavy industries such as heavy engineering, power generation, production of steel, extraction and refining of petroleum etc. without which industrialisation would have been very difficult. You read more about these basic industries in Chapter 7 in this book.

- In your city/ town/ village, what are the roles that you have seen the government playing? Discuss.
- Collect and list out some details of government expenditure after reading the newspapers of your region.
- Can you guess from where does the government get money for public facilities and other activities?

Subsidies

Money paid by government to reduce the cost of certain important goods such as fertilizers, foodgrains, diesel and other important goods so that their prices can be kept low and affordable to all.

In rural areas, investments on irrigation projects and agricultural extension works by the government are crucial for farming. The government also helps farmers by selling fertilisers at a lower price than what would have been otherwise fixed by the factories. The government compensates factories to some extent so that the final price of fertilizers is affordable for the farmers. This money, paid by the government to the factories, is the subsidy for fertilisers. If this was not there, the price charged by the factories would have been much higher. Similarly, the government provides subsidies for many products by compensating the producer, so that the price is kept affordable, especially for those who need it the most. In this way, it subsidizes the price of kerosene, food grain from fair price shops, LPG gas cylinders etc. These days, there is a lot of debate on how effective these subsidies have been. Are they benefitting people? Are there better ways of organising them? You'll read about some of these issues in this chapter.



Fig. 11.1: Some government activities

To fulfill the various roles, the government must have adequate money. The money required for the different functions of the government is collected from the people in the form of taxes. There are a variety of taxes that the government collects about which we shall study in the next sections. The taxes

collected constitute the revenues of the government. Revenues are necessary to finance the expenditures of the government. The Annual Budget presented before the Parliament by the Finance Minister gives the expected expenditure by the government on its various programmes for the coming year. It also states how these expenditures are going to be met through various revenue collections. Similarly, in each state assembly, the state government presents the budget for that state.

Expenditures by the Government

Let us look at the actual expenditure of the Indian government to get a sense of how and how much money the government spends on us. In 2011-12, the government spent around Rs.23,00,000 crores (23 lakh crores). This seems to be a lot of money and indeed it is. Nearly one-fourth of the total spending in the Indian economy is by the government. Rest of the three-fourth of the spending is by the private sector – households that spend on food, education, travel, cloth, housing, health, entertainment etc; and businesses whether it is a manufacturing or a service that have to spend on raw materials, machines, other products, wages and salaries to employees, sales and marketing and other expenses for running the business.

The pie-chart gives the proportion in which this money was spent across various expenditure heads by the government in India in the year 2011-12, from 1st April 2011-31st March 2012. Here, the Government refers to both Central government and all the State governments. In the year 2011-12, 12% of the total expenditure was on education, art and culture. This includes both salaries of employees, running costs of schools and colleges, etc. as well as new investments like construction of new school buildings, purchase of new computers, books etc.

Similarly, 4 % of the total spending was on health and sanitation; 4% was on rural development, and so on.

When you look at the pie-chart, you will notice that besides spending on development activities, there are certain other expenditures like administration, pension, interest and defence. These do not contribute to development directly, but they are necessary. To run its various departments, programmes and the organs of the state (legislature, executive and judiciary), there are expenditures on administration. The government also pays pensions to workers who have retired from the government. Then, there are expenditures on interest payments. Since

Expenditure of the Government
(Center and States), in 2011-12



every year, the Indian government has to borrow some money to meet its expenditure, it has to pay interest on its past borrowings.

The amount that the government spends on health versus defence depends on the policy priorities of the government and people's voice. Every year, around the time of the budget and once the budget is presented, you would have seen there is a lot of media attention on these issues. Though the decisions on budgetary spending is mostly taken by the government, consultations happen between the government and industry groups, farmer groups, civil society activists etc. Groups representing certain sections of the people voice their views, demands and at times, their disagreements before the government. It is through pressures of this kind that the people have demanded greater spending on social sectors such as education, health, food subsidy etc.

The check on the government on matters of budget is ensured through legislative control. The Parliament has to debate the various issues of the budget that has been placed before it and approve the expenditure proposals of the government. The Parliament has to allow the government to withdraw money for its expenditures. Similarly, no tax can be levied except by the authority of the law passed by Parliament. Thus, as per the Constitutional requirement, the elected representatives of the people have an important say in the budgetary decision-making.

- Using the information in the above section, calculate the expenditure of the government on food subsidy? Discuss the areas where this money was spent and the purpose for this.
- With the help of your teacher, try to relate to some of the expenditures in the pie-chart to the roles played by the government as discussed in Section 1.
- In the year 1947-48, the budget for independent India was only Rs.197 crores. What could be the reasons for such an increase in the budget since then?
- Why do you think has the Parliament been given power over the government's budget?
- There have been continuous attempts by the government to reduce fertiliser subsidy. This means that the government would no longer control the price of fertiliser. Farmers would have to buy fertilisers at higher market prices. At present, the government has to pay (compensate) the fertiliser producing companies for the losses they make. Once fertiliser subsidy is removed, it is said this would make space for other important expenditures in the government budget. Some also argue that subsidised fertiliser does not benefit the small farmer but only encourages the large farmers to overuse it.

Imagine you are a farmer using fertilisers in farming, and you genuinely believe that the farmers need subsidized fertiliser. How would you argue your case? Write a letter to the Finance Minister.

Taxes

Taxes are the main source of revenue for the government. There are a variety of taxes collected by the government. You might have heard about some of them like Goods and Service Tax (GST), income tax, property tax, customs duty etc. The taxes can broadly be classified into two categories: direct taxes and indirect taxes.

Direct Taxes

We pay taxes on goods and services that we buy/consume. We have seen how the producer or the trader adds the taxes to the final prices which consumers have to pay. As the goods pass through a number of stages of production and sale, at each step the taxes are paid to the government. However, the total tax is finally passed to the consumer. Thus, taxes on goods and services are also called indirect taxes. Consumers pay it but indirectly.

In addition, there are taxes which are directly charged to individuals directly on their income or directly on the profits earned by companies and business. These taxes have to be paid directly by the individuals or businesses to the government and hence are called Direct Taxes.

There are two important direct taxes – Income Tax and Corporate Tax.

Companies that run factories or businesses have to pay taxes. Companies or businesses receive money from the sale of their products or services. After subtracting all expenses (on raw materials, salaries etc.) from their earnings, the portion that remains is known as the profit of that company or factory. On this profit, corporate tax has to be paid according to the rules.

Income tax is charged on personal income of individuals. There can be a variety of sources of individual incomes like wages, salaries and pensions. An individual can also earn interest income on money that is kept in banks. A person might also get rent on properties that he owns like house rent. All these are considered as incomes on which taxes have to be paid. Income tax is charged only for those who earn above a certain amount. This is charged as a percentage of the income earned. Those who earn a higher income have to pay a greater proportion of their income as tax.

What is the fair way of collecting tax from income?

1. You might think it would be fair for everyone to pay the same amount of tax. Consider the following three people:

Person	Work	Earning per month (in Rupees)	Tax as fixed amount per month (in Rupees)
Jyoti	Daily wage labourer	1,500	50
Asif	School teacher	8,000	50
Nithesh	Business person	30,000	50

Would it really be fair if each of the three people has to pay the same amount? If Jyoti cannot even afford to feed her children properly, is it fair for her to pay 50 rupees as tax?

2. You might think it would be more fair to ask each person to pay a certain percentage of what they earn as tax. Supposing everyone paid 10% in taxes, calculate how much each person would pay.

Person	Earning per month (in Rupees)	Tax as fixed amount per month (in Rupees)
Jyoti	1,500	
Asif	8,000	
Nithesh	30,000	

Would this be fair? Still Jyoti may not have enough to live. Asif may not have enough for repairing of his house. But Nithesh would have plenty of money for all the basic necessities even if he had to pay 20% of his income as taxes.

3. To make taxes more fair, only the people earning more than a certain amount say Rs. 7000 per month have to pay taxes. You might also say that the richest people should pay greater proportion of their earnings as taxes. For example

If you earn (in Rupees)	You will pay as tax
Less than 7,000	0%
7001 to 15,000	10%
15,001 to 25,000	20%
More than 25,000	30%

Calculate how much each person will pay.

Person	Earning per month (in Rupees)	Tax as fixed amount per month (in Rupees)
Jyoti	1,000	
Asif	6,000	
Nithesh	20,000	

Would this be fair?

Indirect Taxes

Indirect taxes are charged on goods and services. You would have seen that alongside the printed Maximum Retail Price (MRP) of goods it is written “inclusive of all taxes”. It means that the price includes taxes. Similarly, for most services like telephone and mobile phone services, the price that consumers pay includes taxes.

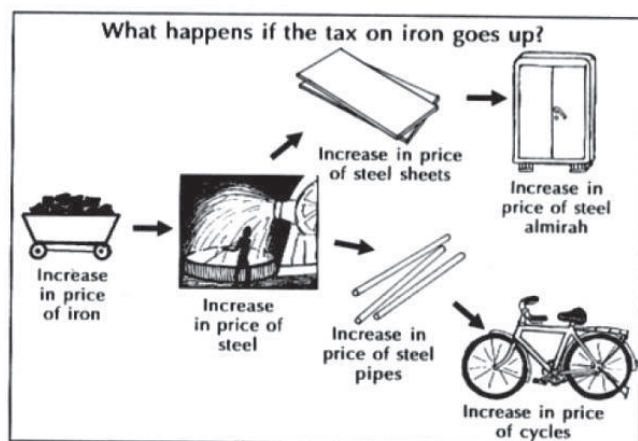
Let us look at the example of sale of a television to see **how the taxes add up to the price**. All figures are in Rupees.

Suppose the cost of manufacturing a television set is Rs.10,000. This includes profit of the manufacturer. At the time of sale, the company pays a tax of Rs. 1,800 which is added to the price of the television set. The final price paid by the consumer includes the costs, profits and the taxes paid. We will find out more about the method of taxation and principle guiding it in the next section.

Cost of manufacturing including profit of the manufacturer	Rs.10,000
Tax	1,800
Price for the consumer	11,800

The proportion earned as profits and the taxes paid would vary from one good to another. The important thing to remember is that most goods and services carry an element of tax as part of its price.

While all taxes on goods and services add to the price, taxing certain goods and services raises the overall prices more. For example, to manufacture bicycles, steel pipes are needed. In order to make steel, the steel factory needs iron and coal. If tax on iron is increased, it will have an effect on cycles as well. The prices of all goods made of iron will go up. And since iron is used to make steel, the prices of all things made of steel will also go up. In this way, a tax increase on iron has far reaching effects.



Thus, taxing heavily basic raw materials **and intermediate products** that are used by many other factories – sets up a chain reaction. All things which are connected to these products, in one way or the other, are affected.

1. In the example of the TV, what proportion of the cost of the TV did the consumer pay as tax?
2. If two manufacturers make a similar product but one of them does not pay taxes, how is this system unfair?
3. If the tax on intermediate goods increases, how is the price of final products affected? Explain using a new example from your region.

Goods and Services Tax (GST) as Value Added Method

The GST was launched in India in 2017, though the preparations have taken across several years. Till recently, we had a variety of indirect taxes. Excise duty was charged on the production of goods. Sales tax was charged on the sale of goods. Service tax was charged on the sale of services such as mobile service, restaurant service, etc. With the launch of GST, most of the indirect taxes have been replaced by one system of Goods and Service Tax. It encompasses taxation of both production and sale of goods and services.

Modern production and sale process is a complex one and may involve many stages. Even the simplest product would comprise of atleast a few stages in production and then sale. At each stage, there is some added value. Let us understand it using the following example.

A biscuit manufacturer buys his raw materials from an unbranded source. He buys materials such as wheat flour, sugar etc on which no tax is charged. Suppose he makes Rs.450 worth of biscuits, all his costs are included in this figure – raw materials, labour charges, salaries, office and factory rent etc. If he adds his profit

margin of Rs. 50, the total value of the output is Rs. 500. This is his sale price. He sells the biscuits to a trader. At the time of sale, the biscuit manufacturer has to charge GST at the prescribed tax rate.

If the GST rate is 5%, the biscuit manufacturer would have to pay Rs.25 as tax (5% of Rs.500) that he would charge to the trader, who buys the biscuits. This tax is collected by the biscuit manufacturer from the wholesale trader and paid or deposited with the government. The bill to the trader reads as:

Value of biscuits	Rs.500
GST	Rs.25
Total	Rs.525

For the wholesale trader the value of goods purchased is Rs 500. The trader stocks the goods, maintains a shop and hires staff to do the work. She sells these biscuits to a retail store at Rs 600. This value of goods sold includes all her costs and profit margin. Rs. 600 may be considered the value of her output. At 5% GST rate she has to charge Rs.30 as GST when she sells. Therefore her bill for the retailer would read as:

Value of biscuits	Rs.600
GST	Rs.30
Total price for retailer	Rs.630

How much would the wholesale trader pay as tax to the government? Recall that she has paid a GST of Rs.25 already. When she bought the biscuits from the biscuit manufacturer, the price she paid included Rs.25 as tax. What was paid previously (Rs.25) is thus deducted from Rs.30 to calculate the tax that the trader pays to the government. She has collected 30 from the retailer but gets a credit of Rs.25 for the tax she has already paid on her input (also called input tax credit). Hence she pays only Rs.5 to the government.

There is another way of looking at this. For the wholesale trader, the value of goods sold is 600 and the total value of input purchased is Rs. 500. Value added is Rs 100. Value added is simply the difference between value of goods and services sold (output) and the value of inputs purchased. Tax rate of 5% on Rs.100 is Rs.5. This is the same amount as paid by the trader to the government! Tax is paid by the trader on value added (Rs. 100), and not on the total value (Rs.600). The inputs used in production that have already been taxed

once are not taxed again. As a proof that the inputs have been taxed, the trader must show the bill of the biscuit manufacturer.

The retailer has bought the biscuits for Rs.600 and has also paid a tax of Rs.30. She now sells her biscuits for Rs.700 to cover all her costs and include her profit. The bill for the final consumer would be:

Value of biscuits	Rs.700
GST	Rs.35
Price for consumer	Rs.735

However the tax paid by the retailer would be the difference between tax collected (Rs.35) and tax already paid on inputs (30). Tax paid by the retailer is Rs.5.

1. Tax paid by the Manufacturer to the Government

Tax paid by the Trader to the Government

Tax paid by the Retailer to the Government

Total tax paid to the Government

Tax paid by the final consumer

2. Value added by Manufacturer

Value added by Trader

Value added by Retailer

Total Value of goods sold.

3. In the bills given below identify the value of good/ service sold and the GST charged on this.

TAX INVOICE

NAME: Mrs. SHEETAL JALUJHARI
ADDRESS: VSP Hb HYDERABAD, TELANGANA
CUST STATE CODE: 36
CONTACT NO: 9989265016

DOC NO: 100220280
DATE: 01/02/2019
GSTIN: 36AJFT5457H1ZQ
STORE STATE CODE: 36
CIN:

S.No.	ITEM CODE	Description	HSN CODE	MRP	QTY	AMOUNT	DISCOUNT	Net Amount
001	NKC001PV02	ZOOP	9102	850		850		850
002	GA0027	GIFT WITH PURCH	3524	55		55	-55	1

NET TOTAL AMOUNT(INR): 2 906 55 851

ASSESSABLE VALUE: 719 NET TAX: 132

CGST @ 9.00 % ON 719: 66
SGST @ 9.00 % ON 719: 66

AMOUNT PAYABLE: 851

AMOUNT IN WORDS: EIGHT HUNDRED AND FIFTY ONE ONLY

CREDITCARD: 851

POINTS EARNED ON: ENCIRCLE
LOYALTY NO.: 700175441406

CUSTOMER SIGNATURE: _____

FOR THE Super Store
AUTHORIZED SIGNATORY: _____
Authorized Signatory

THE EXCLUSIVE TITAN SHOWROOM
Plot No : 33, Prashanthnagar, Vanasthalipuram, Hyderabad - 500070. TOLL FREE : 1800-298-0123

MOHINI'S
Multi Cuisine Restaurant
#3-6-342, Basheer Bagh
Ph: 23224431, 40041101

TAX INVOICE

Date : 01/02/19 Bill No. : 158068
T.No.: 21-B W. No. : 2

Particulars	Qty	Rate	Amount
CD 250ML BOTTLE	2	19.04	38.08
CHI TIKKA MASALA(HALF)	1	209.52	209.52
BUTTER NAN	2	28.57	57.14
CHI BIRYANI	1	219.14	219.14

Sub Total: 523.88
CGST @ 2.8% : 13.10
SGST @ 2.8% : 13.10

4/6/2 Total : 550

GSTIN - 36ABHFM8372M1ZK
SAC CODE - 996331 (02:25 PM)

RESTAURANT

Impact of GST

Three things are note worthy here.

- Bills (invoices) have a crucial role in GST. It provides proof that the buyer has paid the GST on her inputs. For the trader in our example, unless she furnishes proof of her purchase, she will have to pay to the government Rs.30 as tax instead of Rs.5. Thus she will remember to ask the biscuit manufacturer for the bill. Similarly, the retail store owner will remember to demand a bill from the trader to show the taxes paid already. Under the GST, every intermediary has an incentive to maintain a proper bill of the transaction and pay tax. Thus it is more likely that people will pay the required tax and there will be less evasion of taxes.
- Though tax is charged by the manufacturer or trader, ultimately it is the consumer who pays the tax. The consumer is often unaware of the tax hidden in the price since it is collected indirectly from the consumer. The manufacturer and traders collect the tax and forward the tax proceeds to the government, while the final consumer bears the final burden of tax. Isn

Another important feature is one tax for the whole country. Under GST, the goods and services carry the same tax rate across the country. Whether it is sold next to the factory where it is produced or thousands of kilometers away the tax rate charged would be the same. Earlier the tax rates would differ across states. Medicines or motorcycles were cheaper in one state than another. As a result, there was unwanted competition between states, with industry and trade migrating from one state to another. People smuggled goods from one state to another, without paying the required tax. Further, for the movement of goods across states, there was entry tax which would be collected at the border. You may have noticed the long line of trucks that at state borders or at the entry point of cities. Under GST, these problems will be avoided. This will save a lot of time, and energy.

GST, however, still has some way to go. For instance, petrol and diesel, two important intermediate products, have not been included in GST and these products continue to be taxed as before.

Sales Tax Rate (in percentage) on Petrol and Diesel as on 1st Nov.2017 (rounded off)		
State	Petrol	Diesel
Andhra Pradesh	39	31
Telangana	35	27
Chattisgarh	29	27
Odisha	26	26
Maharashtra	43	23

Discuss in class:

What do you think would be the effect of levying multiple indirect taxes on petrol and diesel rather than a single GST?

How do you think people respond to the difference in sales tax rate on petrol and diesel between Telangana and Andhra Pradesh?

You may wonder why there is no GST on petrol and diesel yet. For the states, sales tax on petrol and diesel constitute major revenues such that the states do not want to lose their power to tax these products at rates they deem suitable. After all, every government wants to keep the maximum share of revenues for oneself and use them in ways that they want. Unlike GST, revenues from sales tax can be retained wholly by the states and do not have to be shared with the central government. This is one of the many problems that GST has to overcome in future.

- Kabir goes to Jaya Electricals. He finds that there are three tax rates on electrical products. Products like mixer, juicer, iron and other consumer durables are charged at a GST rate of 28%. Water purifier machine are charged at 18%. LED bulbs are charged a GST rate of 12%. Can you guess why?
- Look at the bills given earlier. Find out what is meant by CGST and SGST.
- Is Custom duty is still charged? Find out

Project work

- Collect different bills and make a poster of bills to show how GST is levied on goods and services that are sold. Are there some goods that are exempted from GST?

- GST is charged at different rates 5,12,18 and 28 percent. Visit the market and find out two examples for each rate. Draw up a table.
- Speak to a few producer of goods and some traders. Do you think that the market environment could be changed so that there is more compliance and less tax avoidance? Explain your view in two paragraphs.

Fairness in Taxation

What kind of taxation we follow depends on the values that the society as a whole holds. Most societies feel that it is not fair that a few people have lakhs of rupees, while others don't have enough to eat. The government should collect more taxes from the rich and the poor should not be taxed or taxed minimally. If the society as a whole aspires, the taxes so collected can be spent to raise the income of the poor by providing better opportunities and living conditions. Notice that as the incomes of the poor improve, more taxes can be collected!

As in the example of Jyoti, Asif and Nithesh, in most countries across the world, the government taxes those with a higher income at a higher rate. According to the rules of income tax, those with higher incomes have to pay greater part in the taxes. Those who are less wealthy pay not only lower taxes, but a smaller proportion of their income as taxes. Hence, direct taxes are preferred but in India, as you read in the previous section, the major source of tax is indirect i.e on goods and services. Whether rich or poor, everyone has to pay the same amount of tax when buying something. The poor “feel the pinch” as they say.

While levying taxes on goods and services, it becomes difficult to distinguish between the poor and the rich. There is, however, a way by which the distinction between some goods can be made. For example, grains, pulses, vegetables, cloth, kerosene, cooking oil, cooking gas etc. are goods that are essential. Rich or poor, everyone buys them but the poor spend almost all of their income on these goods. Then there are goods and services which only the rich can purchase: cars, laptops, air-conditioner, dining in restaurants etc. It is difficult for the poor to afford these luxuries. Hence, one way to distinguish between the rich and the poor is not to tax the essential things but to tax luxury items. (Remember what may be considered as luxury today might become necessities in the future as living conditions improve.)

The problem is that since not many people can afford to buy these luxury items, taxing only such things cannot bring much income to the government.

There is another consideration that the government has to keep in mind in taxing goods and services. There are a number of goods and services that are not directly used by people, such as diesel, steel, aluminium, machines, trucks, truck tyres etc. Such things are used in making or transporting other things. You can imagine the

large number of places - industries, factories and businesses where these might be used. People do not buy them directly for consumption.

We saw that when tax is increased on things such as steel, diesel etc, this increase gets added to the cost of goods which are made out of them or transported with their help. With this, even the poor who buy grain or cloth have to pay some part of the tax on diesel or steel. When such things are taxed, the price of many other things goes up. Thus, we often hear people saying:

“The increase in the price of petrol and diesel has led to an all round increase in prices. Fruits, vegetables, pulses and other food items, for example, have become more expensive.”

For this reason, the question that troubles everyone each year is: which taxes should be increased more? Taxes can be collected more easily on goods, but except for luxury items, taxing essential goods affects the poor greatly. Taxes charged and collected have a strong impact on people's lives. The tax on income falls more heavily on the rich and therefore can be considered more fair. But the taxes from income might not be enough to cover the large government expenditure. Any budget has to take all these considerations into account. That is why the time of the budget is of great importance for everyone.

Collection and Evasion of Taxes

The government gets income from different kinds of taxes. It has to decide how much money to collect through each kind of tax. For this, it has to

- We read about some of the major taxes collected by the government. Fill the blanks in the table from the information given below. Income Tax: 12%; Corporation Tax: 24%; Customs Duty: 10%, GST: 54%.

Taxes Collected by the Government

Taxes	Percentage of Total Tax
Direct Taxes	36%
Indirect Taxes	
Total Taxes	100%

1. Which kind of taxes generate more revenues for the government?
2. Kranti has an income of Rs.1,75,000 per year and has to pay an income tax of Rs.3000. Kamlesh's annual income is Rs.3,00,000 and he has to pay an income tax of Rs.5,500.
 - Who pays more income tax?
 - Who has to pay a larger part of the income as tax?
 - In such a situation, the person with higher income is paying a _____ (smaller/ greater/ equal) part of the income as tax.

consider: how many people would have to pay; whether this tax can be collected easily; how would it affect the rich and the poor. A mother related question is whether people pay their taxes or evade it.

You know that a large number people in our country depend on agriculture. Most of them are small and medium farmers. There are also some large farmers with high incomes. However, all agricultural income is exempted from tax. Similarly, a large section of people in the country earn very low income whether from trade or running small shops or providing labour. The income of these people would be below the limit for income tax. Thus, the percentage of total number of people who could be paying income tax is small.

Even this small percentage of people from a large population implies that tax has to be collected from a sizable number of people. For example, in the incomes of around 280 lakhs of individual were assessed for income tax. They would be living in different places in the country. Collecting income tax is not easy. There are many hurdles. Many people do not disclose their entire income or show it to be less than what it actually is. This income, which is kept hidden, is known as black money.

Many factory owners, rich moneylenders, traders, those doing private business can easily show a low income. It is easy to calculate the income of those who are paid monthly salaries. Tax on their income is directly deducted at the source from where they get their salaries. But many salaried persons also have other sources of income which they keep hidden. Such people, whether they are workers, officers, ministers or clerks, often do not disclose their income correctly. Because there is no tax on income from agriculture many wrongly show their income as income from land and therefore, evade tax.

Thus, there are many 'tax evaders' and the black money, that is the money on which tax should have been paid but wasn't, goes on accumulating. To get hold of this hoard of black money, the income tax department raids many people's houses and offices. It has also tried to make the procedures more convenient for people to pay their own tax. Despite these efforts, a large number of people do not pay income tax or pay less than they should.

On the other hand, taxes on goods can be collected more easily since there are fewer places from where it has to be collected. GST is collected from factories, traders and others, customs duty from international airports and seaports. As compared with income tax to be paid by individuals, the government finds it easier to keep a track of these factory records or shops.

Even here, there are those who try to escape taxes by showing lower production than has actually taken place. Tax is evaded on a wide scale. Some traders, by not

issuing proper bills or recording it in their official registers, show much lower sales than what actually occurred. GST, as we saw in this chapter, is intended to reduce the evasion of taxes on goods and services.

Keywords

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|------------------|---------------------------|-----------------------|
| 1. Annual budget | 2. Black money | 3. Value Added Method |
| 4. Corporate tax | 5. Direct tax | 6. Indirect tax |
| 7. Income tax | 8. Goods and Services Tax | |

Improve your learning



1. Why does the government need a budget?
Why does the budget talk of taxes?
2. What is the difference between income tax and excise duty?
3. You are expected to pay taxes on steel, matches, clocks, cloth, iron; a tax increase on which of these would affect the prices of other commodities the most and why?
4. Ordinary food items, such as grain, pulses, oil are used by all. Then why is it said that imposing tax on them will have a greater effect on the poor?
5. Tax on income or tax on commodities; which of the two affects the rich more and which affects the poor more? Explain with reasons.
6. How would VAT reduce the evasion of taxes on goods?
7. What is the difference between Excise duty and Customs duty?
8. What are the possible reasons for hike in the bus fares?
9. Read the paragraph under the heading 'Direct Taxes' (Income Tax is charged only for ...) and answer the following:
Why do high income earners pay more tax?
10. What is the effect of black money on our economy?

Project

Bring a few wrappers of soaps, toothpastes, tablet strips or any other things of daily use which contain MRP. Discuss the rate mentioned and the rate at which they are sold. Talk about the profit that the retailer gets.